Request for extending the applicability of the EGF State aid Scheme by analogy with Sections 3.1 and 3.2 of the Temporary Framework till the end of 2022

The European Association of Guarantee Institutions (AECM), the European Association of Public Banks (EAPB), the European Association of Long-Term Investors (ELTI), the Network of European Financial Institutions for SMEs (NEFI) and the association of Crafts and SMEs in Europe (SMEunited) would like to affirm their strong support to the Pan-European Guarantee Fund (EGF) which aims at addressing the economic impact of the COVID-19 pandemic by ensuring that companies, in particular small and medium-sized enterprises (SMEs) in the 22 participating Member States have sufficient short-term liquidity available to face the crisis and to continue their development as well as to finance investments for recovery and twin transition in the medium to long-term.

Consequently, AECM, EAPB, ELTI, NEFI and SMEunited highly appreciate the joint commitment taken by the Member States on 18 March 2021 to prolong the inclusion period for new transactions with the European Investment Fund (EIF) towards final beneficiaries until 31 December 2022. We trust that this time frame will enable financial intermediaries to effectively deliver the intended financial support to SMEs that are having trouble because of the economic downturn but that would have been strong enough to access finance in the absence of the COVID-19 crisis, thereby preserving the continuity of their economic activity during and after the crisis.

However, for the practical implementation of the EGF, the applicable State aid regime triggers significant challenges to our members. The fact that the EGF State aid Scheme built by analogy with Sections 3.1 and 3.2 of the Temporary Framework (TF) is foreseen to be applicable until 31 December 2021, meaning that only the Regulation on *de minimis* aid for State aid (*de minimis* Regulation) would be available for inclusions in 2022, is a major cause for concern for the following reasons:

- The *de minimis* Regulation provides for small amounts of State aid to a single undertaking over three consecutive fiscal years. The maximum amount of € 200,000 was quickly reached even before the pandemic. Yet, the big impact of the pandemic forced the SMEs, right from the outbreak of the crisis, to take full advantage of the *de minimis* Regulation having been using it regularly to the limits following the receipt of support from European, national and regional level. For this reason, in 2022 the possibilities to apply the *de minimis* Regulation (with a cumulation of aids within and outside the scope of the EGF) will be severely limited. As a consequence, the TF remains for many undertakings an essential if not the only possibility to obtain the necessary financial support to face the liquidity constrains and to finance necessary investments for both, the recovery and the twin transition to a sustainable and digital economy. Therefore, an abrupt disengagement by ending the EGF State aid Scheme at the end of 2021 could put the viability of many healthy SMEs at risk.
- The applicable State aid regime determines the features of the financing such as the maximum maturity period and guaranteed amount. The implementation and monitoring of the state aid requirements will also involve IT developments, i.e. self-declarations to be provided under the EGF State aid Scheme. In this view and as it stands, it is unclear how financial intermediaries will switch from one State aid regime to another when providing the financial support under the EGF. We are concerned that for several financial intermediaries switching from the EGF State aid Scheme by analogy with Sections 3.1 and 3.2 of the TF to the *de minimis* Regulation from 1 January 2022 onwards will not only be difficult but even impossible, given the fact that EGF products are built in compliance with State aid rules by analogy with the TF (Sections 3.1 and 3.2).
- Many financial intermediaries are public promotional institutions meaning that their activity constitutes State aid in case it is not carried out on market terms. On the other hand, the Pan-European nature of the EGF requires the financial intermediaries to comply with the applicable State aid rules when implementing the Fund products. From this standpoint, it is unclear how a public counter-guarantee institution whose activity may not comply with the market economy investor

principle but rather implements the measures based on the *de minimis* Regulation should calculate the Gross Grant Equivalent (GGE) when delivering the EGF guarantee products. To this end, the "Commission Notice on the application of Articles 87 and 88 of the EC Treaty to State aid in the form of guarantees" which already serves as a basis for this, could be further clarified.

In the same vein and as previously signaled[1], the members of AECM, EAPB, ELTI, NEFI and SMEunited express their concerns regarding the prohibition to decide after 2021 on the maturity extension of the EGF-supported transactions. This limitation is likely to have adverse implications with regard to access to finance for healthy SMEs in their recovery phase. Furthermore, the Commission's State aid decision of 14 December 2020 does not currently include any guidance on the compatibility criteria for granting a maturity extension.

In the light of the above, and given the general uncertainty about the duration of the COVID-19 crisis as well as its negative consequences, it simply cannot be assumed that from January 2022 onwards the economy will have recovered to such an extent that the exclusive use of standard subsidies alone will be sufficient. For this reason, AECM, EAPB, ELTI, NEFI and SMEunited ask the European Commission to take our requests into its kind consideration by approving as quickly as possible any amendment to the EGF State aid decision of 14 December 2020 aiming at:

1) Extending the applicability of the EGF State aid Scheme by analogy with Sections 3.1 and 3.2 of the TF till the end of 2022 to effectively allow for inclusions of new transactions with final recipients under the EGF. This request is further supported by the fact that the EGF, which was endorsed by the European Council on 23 April 2020, has taken longer to become operational than originally envisaged. Therefore, a prolongation is deemed necessary to allow the intended support to reach the final beneficiaries. Or, the joint commitment taken by the Member States on 18 March 2021 to prolong the inclusion period for

[1] See AECM letter to DG Competition calling for improvement of state aid provisions applicable to the Pan-European Guarantee Fund https://aecm.eu/wp-content/uploads/2021/03/EGF.pdf

new transactions with the EIF towards final beneficiaries until 31 December 2022 would not be efficient in reaching this objective given the above-mentioned difficulties related to the regime change during the implementation process.

2) Align with the latest version of the TF allowing for an increase in thresholds for products under the TF Section 3.1.
3) Explicitly enable financial intermediaries to decide on maturity extensions of underlying loans after the end of the EGF State aid Scheme[2] and include clear guidelines on how to grant such an extension which will make a significant difference to the recovery of many SMEs.

Finally, we would like to thank the European Commission once again for its bold response to the COVID-19 outbreak which made it possible to mitigate negative consequences for the European economy and remind that AECM, EAPB, ELTI, NEFI and SMEunited members stand ready to fully assume their responsibility doing everything possible to overcome the current crisis as quickly and as best as possible.

Brussels, April 2021

[2] See DG Competition's reply to AECM letter concerning the Pan-European Guarantee Fund https://aecm.eu/wp-content/uploads/2021/03/Reply-to-AECM-letter-of-2-March-2021_e-signed_24.03.2021.pdf

About us

The 47 members of the **European Association of Guarantee Institutions (AECM)** are operating in 30 countries in Europe. They are either private /mutual sector guarantee schemes or public promotional institutions or banks. Their mission is to support SMEs in getting access to finance. They provide guarantees to SMEs that have an economically sound project but do not dispose of sufficient bankable collateral. AECM's members operate with counter-guarantees from regional, national and European level. As of mid-2020, AECM's members had about bEUR 259 of guarantee volume in portfolio, thereby granting guarantees to around mEUR 4.5 SMEs. AECM's members are by far the most important counterparts of the EIF concerning EU counter-guarantees, handling EU guarantees from the very beginning in 1998.

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The European Association of Public Banks (EAPB) gathers member organizations (financial institutions, funding agencies, public banks, associations of public banks and banks with similar interests) from 15 European Member States and countries, representing directly and indirectly the interests of over 90 financial institutions towards the EU and other European stakeholders. With a combined balance sheet total of about EUR 3,500 billion and a market share of around 15%, EAPB members constitute an essential part of the European financial sector, providing financial services and funding for projects that support sustainable economic and social development with, amongst others, activities ranging from the funding of companies/SMEs and the promotion of a greener economy to the financing of social housing, health care, education and public infrastructure at national, regional and local level.

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Members of the **European Association of Long-Term Investors (ELTI)** represent a European-wide network of 31 major long-term investors. The Full Members of ELTI are generally national, official, financial institutions dedicated to the promotion of public policies at national and EU level. They represent a combined balance sheet of over Euros 1.8 trillion and annual financing commitments of Euros 160 billion.

ELTI also includes the European Investment Bank (EIB) as a permanent observer and multilateral financial institutions, regional financial institutions and non-banking institutions, such as associations, under the status of Associated Members. With its combination of members that represent almost all Member States, ELTI bears a unique and coherent European perspective on long-term investment and its members offer a wide range of financial solutions tailored to the specific needs of their respective country and economy.

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The Network of European Financial Institutions for Small and Medium Sized Enterprises (NEFI), which was founded in 1999, consists currently of 21 financial institutions from 20 European Union member states and UK. NEFI pursues the objective of following the financial, political and legal developments in the fields of European economic and financial policies and all measures adopted by the EU institutions which are relevant for promotional financial institutions focusing on the facilitation of SMEs' access to finance. NEFI serves as a contact for the European Institutions providing know-how and information on all matters concerning promotional banking.

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The Association of Crafts and SMEs in Europe (SMEunited), formerly known as UEAPME, is the association of crafts and SMEs in Europe with around 70 member organisations from over 30 European countries. SMEunited is a recognised employers' organisation and European Social Partner and acts on behalf of crafts and SMEs in the European Social Dialogue and in discussions with the EU institutions. SMEunited represents national cross-sectoral Craft and SME federations, European SME branch organisations and associate members and speaks on behalf of the 24 million SMEs in Europe which employ almost 95 million people. SMEunited is a non-profit seeking and non-partisan organisation.

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